

BUDGET AND FINANCIAL POLICIES

The Village of Barrington's budget and financial policies are the basic guidelines for the management of the Village's fiscal operations. The policies were developed within the framework and comply with Illinois State Statutes and the Village of Barrington Municipal Code. The policies assist the Village Board and Village Staff in preparing the budget and managing the Village's fiscal affairs throughout the budget period. The policies will be reviewed during each biennial budget process and modified as appropriate to accommodate changing fiscal conditions, environmental challenges, and Village Board policy initiatives.

Budget Policies

1. The fiscal year of the Village of Barrington will begin on January 1 of each calendar year and end on December 31 of the same calendar year. All accounting and budgeting functions of the Village will occur in conjunction with this fiscal time period.
2. The Budget will be prepared on a basis consistent with Generally Accepted Accounting Principals (GAAP). Any exceptions to preparing the budget on a basis consistent with GAAP will be disclosed in the Basis of Budgeting Section (*located on Pages 30-31 of this document*).
3. The Budget Officer of the Village, prior to October 1 of the year preceding the first year of the forthcoming biennial budget period, will submit to the Village Board a budget document that includes the Legal Budget request for two fiscal years. The budget document will include the following information:
 - a. A transmittal letter that describes organizational priorities, analyzes service and program impacts of the proposed budget, and illustrates highlights of the proposed budget and its impact on the Village's financial condition.
 - b. An estimate of all revenues for each Fund, prepared on a realistic basis at the account level and taking into account all available information. The Village will strive to maintain a reasonable and balanced estimate of revenues to avoid under or overestimation, both of which are equally undesirable (*Underestimation may lead to an unnecessary reduction in programs and services and overestimation may lead to an expansion of services and programs that cannot be supported with available resources*).
 - c. A section that describes major revenue sources, illustrates historical trends, and establishes projections that form the basis for the revenue estimate. This section will also include an analysis of the assumptions underlying each projection.
 - d. An accounting of expenditures/expenses in each Fund by Department and Division according to sub-class categories established for operating expenditures. The Legal Budget will include two previous years of actual expenditures, budgeted and projected actual expenditures/expenses for the year preceding the biennial budget, and budgeted expenditures/expenses for both years of the biennial budget period.
 - e. Specific objectives for every operating Department. These objectives will be consistent with strategic organizational priorities as described in the transmittal letter and will be explicitly linked to these priorities in an explanatory paragraph.
 - f. A Capital Improvements section that describes each major category of projects, analyzes the work to be performed in the biennial budget period, illustrates the expenditure budget for the biennial budget period, and forecasts future capital project funding needs.
4. The Biennial Budget submitted to the Village Board will include a balanced budget, as defined by Village Policy (*see Pages 34 – 35*) in each Accounting Fund. The transmittal letter will highlight and explain any circumstances in which a budget in any Fund is not balanced.

5. Public hearings for each fiscal year of the Biennial Budget will be held before the Village Board. The public hearing format will provide Village residents with the opportunity to express their opinions regarding estimated revenues, proposed fee or tax increases, and proposed expenditures/expenses. Residents will have the opportunity to express their reasons for wishing to increase or decrease any expenditures/expenses. The notice of public hearing will be published in newspapers circulating in the community not less than seven days in advance of the date of the public hearing (ILCS 5/8-2-9.9)
6. The Budget Document will be published in a format that satisfies all criteria of the Government Finance Officer's Association Distinguished Budget Program. The final budget document will be published no later than 90 days following the adoption of the second year of the biennial budget and will be made available to the public on the Village's web site.
7. The Budget Officer of the Village may transfer money between accounts within an Accounting Fund at his/her discretion as long as these transfers do not result in a change to the total expenditure amounts included in the approved budget for the respective Accounting Fund. If it becomes necessary to effectuate a change that impacts total expenditure dollars budgeted in a particular Accounting Fund, such change can only be made following the approval, by a two-thirds vote of the members of the Corporate Authorities then holding office (65 ILCS 5/8-2-9.6), of an ordinance amending the budget for the respective Accounting Fund.

Minimum Fund Balances and Balanced Budgets

1. The Village will avoid the appropriation of fund balance for recurring operating expenditures. If at any time the utilization of a fund balance to pay for operating expenditures is necessary to maintain the quality or level of current services, an explanation of the circumstances of the utilization of fund balance and the strategy to arrest the future use of fund balance will be included in the Transmittal Letter.
2. The Village will maintain a minimum Undesignated/Unreserved General Fund Balance that is sufficient to provide financial resources for the Village in the event of an emergency or the loss of a major revenue source. The Village is a non-home rule municipality and relies significantly on sales tax revenue. Due to these factors, the Village has set the minimum Undesignated/Unreserved Balance for the General Fund at an amount equal to three months of General Fund operating expenditures plus one-half of the Village's estimated annual Sales Tax Receipts. Any General Fund Balance that the Village has designated as a contingency reduces the amount of Undesignated/Unreserved Balance that must be maintained in accordance with this policy (the formula is: $\frac{1}{2}$ estimated Sales Tax + three months budgeted operating expenditures – any General Fund Balance designated as a contingency).
3. The minimum Fund Balance for the Unreserved – Undesignated Fund Balance in the Capital Improvement Fund has been established at one third (.3334%) of the amount needed to fund the annual Street Maintenance Program. This is necessary to ensure sufficient resources are available in the Fund to begin work on the following year's program early in the following year before the Fund has received the majority of its revenues for the year. The maximum Fund Balance allowable in the Capital Improvement Fund is equal to 3% of the equalized assessed value of the taxable real property located in the corporate boundaries of the Village (ILCS 5/8-2-9.5). Based on the 2003 equalized assessed value of the Village, this limit was equal to \$14,268,575.
4. No minimum Fund Balance has been established for the TIF Fund. This Fund was established to account for the resources associated with capital infrastructure construction and maintenance within the TIF District. Throughout the majority of its existence, it is likely that the TIF Fund will have a negative Unreserved – Undesignated Fund Balance because capital projects within the Fund will require more resources in the beginning than have been accumulated. The TIF Fund, in order to pay for these capital projects, may receive loans from other accounting funds of the Village and these loans will lead to a negative Fund Balance until they are repaid by the TIF Fund.

5. No minimum Fund Balance is set for the Debt Service Fund. The Fund collects Property Tax Revenue for the payment of General Obligation Bonds that have been authorized by referendum. The amount of Property Tax collected is set at the time the General Obligation Bonds are issued and is directly tied to the amount needed to pay the debt related to the bonds during any particular fiscal year. Therefore there is no need to set a minimum Fund Balance as the Property Tax revenue should always offset expenditures in the Fund.
6. The minimum Unrestricted Net Assets for the Enterprise Funds is established at three months of operating expenditures plus one quarter (25%) of the accumulated depreciation of the Capital Assets of the Fund. Short of a natural disaster, enterprise fund revenues are stable and predictable; establishing a minimum fund balance of three months operating expenditures should provide sufficient security for operating activities in these Funds. The addition of one quarter (25%) of accumulated depreciation of the Capital Assets of the enterprise funds is necessary to ensure adequate resources are available to reconstruct or rehabilitate capital assets as they reach the end of their useful lives. The expense of reconstructing or rehabilitating capital assets in enterprise funds can be prohibitive unless an adequate reserve has been accumulated in the fund for the purpose of reconstruction or rehabilitation.
7. Minimum Unrestricted Net Assets for the Internal Service Funds have been established at three months of operating expenditures plus the amount needed for future equipment replacement purchases. Internal Service Funds have stable revenue sources and which are predictable enough to safely establish a three month operating expenditure spending limit. Equipment replacement schedules are maintained for each Internal Service Fund. The schedules establish the minimum fund balance needed in each year to replace equipment in the future; each of these funds will maintain a fund balance sufficient to provide resources for the future replacement of equipment as required according to the appropriate equipment replacement schedule.
8. The Pension Trust Funds minimum fund balances are established by actuarial projections. The Village will strive to provide enough resources to fully fund current estimates of future pension liabilities.
9. An assessment of the minimum Unrestricted Net Assets for the enterprise and internal service funds will be conducted once the Village's Comprehensive Annual Financial Report (CAFR) becomes available for each Fiscal Year. The Minimum Unrestricted Net Assets is not predictable and therefore a balanced budget in the enterprise and internal service funds (*as defined below*) may not necessarily indicate that minimum Unrestricted Net Assets are equal to an amount set by policy (*please see the Village's most recent CAFR to assess whether the Village has been able to comply this policy*).
10. The definition of a balanced budget for each accounting fund for which budget appropriations occur shall be:
 - a. General Fund – A General Fund balanced budget is determined by the positive or negative results of the Unreserved – Undesignated Fund Balance. The expenditures associated with General Fund operating activities are supported by the revenues and accumulated resources of this category of Fund Balance. Increases or decreases in this Fund Balance category are indicative of the General Fund's ability to support continuing operations.
 - b. Capital Improvement Fund – A balanced budget in the Capital Improvement Fund is determined by whether the Unreserved – Undesignated Fund Balance is greater than the minimum Fund Balance required by Village Policy; in 2005 this amount is \$465,093 and in 2006 the amount is \$485,097.
 - c. Tax Increment Financing Fund – A balanced budget in the TIF Fund is determined by the Fund's ability to provide resources for anticipated projects. An analysis of a balanced budget for the TIF Fund must therefore focus on the cash balance of the Fund and its ability to provide funding for future projects.
 - d. Debt Service Fund - A balanced budget in the Debt Service Fund has been established by Village

Policy as a positive Net Change in Fund Balance (*i.e., a Net Change in Fund Balance greater than \$0*). A positive Net Change in Fund Balance indicates that the Fund is receiving sufficient revenues to pay the Village's obligations.

- e. Water & Sewer Fund - A balanced budget in the Water and Sewer Fund is determined by the positive or negative change in Net Assets. The budgeted Change in Net Assets is indicative of the Fund's ability to generate sufficient resources to meet operating and non-operating expenses. If the Change in Net Assets is equal to or greater than \$0, the Fund's budget is considered to be balanced.
- f. Recycling & Refuse Fund - A balanced budget in the Recycling and Refuse Fund is determined by the positive or negative change in Net Assets. The budgeted Change in Net Assets is indicative of the Fund's ability to generate sufficient resources to meet operating and non-operating expenses. If the Change in Net Assets is equal to or greater than \$0, the Fund's budget is considered to be balanced.
- g. Motor Vehicle System Parking Fund - A balanced budget in the Motor Vehicle Parking System Fund is determined by the positive or negative change in Net Assets. The budgeted Change in Net Assets is indicative of the Fund's ability to generate sufficient resources to meet operating and non-operating expenses. If the Change in Net Assets is equal to or greater than \$0, the Fund's budget is considered to be balanced.
- h. Information Systems Fund - A balanced budget in the Information Systems Fund is determined by the positive or negative change in Net Assets. The budgeted Change in Net Assets is indicative of the Fund's ability to generate sufficient resources to meet operating and non-operating expenses. If the Change in Net Assets is equal to or greater than \$0, the Fund's budget is considered to be balanced.
- i. Central Garage Fund - A balanced budget in the Central Garage Fund is determined by the positive or negative change in Net Assets. The budgeted Change in Net Assets is indicative of the Fund's ability to generate sufficient resources to meet operating and non-operating expenses. If the Change in Net Assets is equal to or greater than \$0, the Fund's budget is considered to be balanced.
- j. Firefighter's Pension Fund - A balanced budget in the Firefighter's Pension Fund is achieved when additions exceed deductions in the Fund.
- k. Police Pension Fund - A balanced budget in the Police Pension Fund is achieved when additions exceed deductions in the Fund.

Revenues

- 1. To ensure the Village's continuing financial health, the Village will strive to maintain a diversified and stable revenue system so that fluctuations in any one revenue source will not have a devastating effect on the Village's financial integrity.
- 2. The Village shall utilize property taxes as a "stop gap" Revenue source. For each tax levy, the Village will determine the level of service it wishes to provide to its residents and the cost of providing this level of service. The cost of those services will be compared to projected revenues, excluding property tax. The shortfall between projected revenues and estimated expenditures is "theoretically" the amount to be considered for the property tax levy.
- 3. The Village will establish user charges and fees at a level that attempts to recover the full cost of providing the service.
 - a. User Fees, particularly utility rates, should identify the relative costs of serving different classes of customers.

- b. The Village will set user fees to include the full cost of providing the service, including the construction, rehabilitation, and maintenance of the capital assets necessary to provide the service.
 - c. The Village will consider rates and fees charged by comparable units of local government providing similar services when establishing user charges and fees.
- 4. The Village will attempt to maximize its financial resources by encouraging Intergovernmental Cooperation. The establishment of intergovernmental service agreements with other units of local government allows the Village to provide residents higher levels of service at a reduced cost. It is the objective of the Village to continue to maintain and improve these intergovernmental agreements while evaluating whether there are other service areas that could be enhanced through intergovernmental cooperation.
 - 5. The Village will attempt to maximize its financial resources by investing excess funds in a manner that provides the highest investment return while maintaining the maximum security of invested funds and meeting the daily cash flow demands of the Village. The Village will invest funds in a manner conforming to all state statutes and local regulations governing the investment of public funds. The rules and regulations required by State Statutes are detailed in the Village's Investment Policy which was adopted by the Village Board on December 3, 1999.

Operating Expenditures

- 1. The Village will fund all operating expenditures in a particular Fund from the operating revenues generated by that Fund. In developing the budget, recommendations will be made regarding services level adjustments that may be necessary to meet this objective. Services will not be expanded beyond the Village's ability to utilize current revenues to pay for the expansion of these services.
- 2. The Village will continually assess its organization and service provision efforts in order to provide service enhancements by increasing efficiency or effectiveness. During each budget process the Village will assess its current organization and service provision strategy and make adjustments if the analysis demonstrates that a particular enhancement would improve operations.
- 3. The Village shall continually examine its service provision efforts in an effort to reduce operating expenditures and/or enhance the quality and level of services without increasing cost.
- 4. The Village will establish Personnel Services budgets necessary to continue to provide quality and level of services to residents. To attract and retain quality employees, the Village will maintain a compensation and benefits package that is competitive with other public sector employers.
- 5. The Village will provide sufficient resources to train Employees and thereby develop the specialized knowledge and expertise necessary to maintain and improve the quality of Village services.
- 6. The Village will strive to adopt new technologies and techniques that will allow the Village to maintain and improve the level of services provided to residents while maintaining a stable workforce. To achieve this objective, the Village will investigate, fund, and implement information and communication technology solutions that allow for the automation of functions.
- 7. Operating Expenditures will be budgeted, accounted for, and reported in the following major categories:
 - i. Personnel Services
 - Salaries
 - Fringe Benefits

- ii. Operating Expenditures
 - Professional Development
 - Contractual Services
 - Commodities
 - Program Expenditures
- iii. Other Expenditures
 - Equipment Purchases
 - Interfund Charges
- iv. Capital Expenditures
 - Contractual Services (Legal, Architectural, Engineering, Other Professional)
 - Land Acquisition
 - Capital Equipment
 - Capital Construction

Capital Projects

1. The Village will develop a multi-year plan for capital projects. This plan will identify projects likely to be constructed within a five year time period and will also identify the likely source of funding for the project.
2. To maintain its excellent debt standing, the Village will attempt to support capital projects with recurring revenues or excess fund balances in the Capital Improvement, TIF Redevelopment, and Water and Sewer Fund.
3. The Village will set utility rates that are sufficient to provide funding for future capital improvements necessary to maintain utility infrastructure. Rates shall be set at a minimum to maintain sufficient cash resources to fund capital expenditures on a pay as you go basis. This minimum level will be set through the use of the Village's Water and Sewer Rate Analysis.
4. Capital maintenance expenditures will be sufficient to address the deterioration of the Village's capital infrastructure to protect the community's quality of life. Capital maintenance expenditures will be sufficient to ensure a relatively stable level of expenditures in every budget year.

Debt

1. The Village will issue debt or utilize low interest loans only for projects that cannot be reasonably funded through recurring revenues. Recent examples include the Village Facilities Project (reconstruction of Village Hall and the Public Safety Facility), the construction of the Station Street Reservoir and the Iron Removal Facility, and the renovation of the Wastewater Treatment Plant.
2. The Village will not issue debt or undertake low interest loans that will last beyond the useful life of the asset for which the debt is to be issued.
3. To minimize interest payments on assumed debt, the Village will strive to maintain or improve upon its current bond rating of Aa3 (Moody's Investor Services) when issuing bonds. When considering loans, the Village will utilize, to the extent available, low interest loans (with interest rates below current rates of interest) such as Illinois Environmental Protection Agency (IEPA) loans for Water and Sewer Infrastructure construction and rehabilitation.

Financial Reporting

1. Following the conclusion of the fiscal year, the Village will prepare a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting and reporting principles established by the Governmental Accounting Standards Board (GASB). The CAFR shall also satisfy all criteria of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting.
2. Included as part of the CAFR shall be the audit report prepared by independent certified public accountants designated by the Village Board to audit the Village's financial statements. The Village will strive to periodically rotate auditing firms and will not retain the services of any one firm for more than fifteen (15) years.
3. The Village will capitalize projects in compliance with the Capitalization Policy established in conjunction with the conversion of the Comprehensive Annual Financial Report to the GASB Statement #34 format (*this Policy is included in this document in Appendix C on Pages 316-319*).
4. On a continual basis, at Administrative Services committee meetings, the Administrative Services Department will prepare and present to the Committee month end financial reports that will include revenue and expenditure summaries for each Fund and a cash and investment report for each Fund. These reports will not necessarily be presented to the Committee at the end of the month on which they report (it takes approximately 20 days after the end of the month for Administrative Services to make all concluding entries for a month), but the Committee will have the opportunity to review the financial reports for each month in a fiscal year.